



## COMPENSATION STRATEGIES THAT IMPROVE EMPLOYEE MORALE

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*While today's workers may no longer foresee huge raises or job security, they do expect to be rewarded in some manner for excellent work, especially if the remuneration helps enhance their marketability. The strategies outlined below can be applied to nearly any industry.*

It made sense in the 1950s. Spawned by the nation's geopolitical strength and fueled by low-cost capital, many U.S. companies aggressively expanded their operations. Sprawling business empires, with complex organizational structures and regimented managerial hierarchies, became commonplace. As the economy expanded through the 1960s and 1970s, growth seemed limitless.

Career paths in these heavily layered organizations were extensive and well defined. Success meant rising to senior management, generally through a series of incremental, vertical promotions. Traditional compensation policy and rewards reinforced this progression. Significant financial incentives were linked primarily to moving up, not to taking on new responsibilities for performing better in the same job.

By the 1980s, global competition, new technology, burden of debt, and other economic forces led many companies to scale back and reduce overhead. By cutting management layers and laying off employees, many businesses did manage to reduce costs. But in the process of downsizing and delayering, employee morale shrunk significantly—along with opportunities for traditional vertical promotions.

As a result, many organizations today are struggling with a new psychological contract. The old contract guaranteed employee loyalty and commitment in exchange for implicit promises of lifetime employment and tenure-based advancement. Given the business realities of the past decade, today's psychological contract requires that companies offer their workforces explicit time-bound exchanges of rewards for performance, particularly rewards that enhance an individual's marketability. Below are four strategies for motivating employees under the new covenant.

### **Pay for Competencies**

Analyze key organizational positions to determine what competencies—i.e., skills, knowledge, attributes—differentiate average from outstanding performance. Particularly those competencies most critical to achieving the organization's future-focused objectives. Once determined, these competencies offer an empirically-based standard against which to compensate employees.

A human resources manager at a leading paper concern who participated in a survey we conducted on career and professional development in streamlined organizations told us: "We've identified six core competencies, and we pay people for achieving them. It's like baseball: Some

outfielders make \$100,000 a year, some \$5 million. Yet both perform the same job.” A line manager who oversees 160 computer scientists at another firm added: “A programmer who just wants to write code is not valued as highly as someone who acts as a co-creator, contributing to the whole project. We reward people for their contributions.”

In an effort to encourage restaurant managers to develop in their jobs and remain in them longer, Taco Bell Corp. (a division of PepsiCo) revised restaurant managers’ pay structures, offering several broad salary bands, instead of one narrow range. Salaries are based principally on performance, as well as tenure and market conditions. Across restaurants, managers’ paychecks vary widely.

In addition to expanding position salary bands, competency-based compensation might involve merit-based pay, spot bonuses, year-end bonuses, stock options or other rewards predicated on outstanding performance—instead of hierarchical advancement.

### **Promote for Development**

The notion of building professional and behavioral competencies also forms a solid basis for planning development. Instead of moving people into “bigger” jobs, a competency-based approach might focus on providing targeted experiences in employees’ current jobs—for example, special projects, task forces or other temporary assignments—that promote important skills, knowledge and behaviors.

The key to making this approach work is to clearly communicate what competencies are needed and provide human resources systems that foster their development. One way to meet these objectives is to post development opportunities that build key competencies, just as organizations frequently post open positions. Employees who want or need to acquire a particular competency can then apply for these opportunities.

Posted opportunities may be temporary assignments in different parts of the company, opportunities to act as mentors or coaches for new hires, or part-time assignments that enlarge someone’s current responsibilities. In addition to enhancing employees’ skills and abilities, competency posting helps align career expectations with business needs and can change individuals’ perceptions of their opportunities for growth within the organization.

AT&T uses a similar approach through a program it calls Resource Link. An in-house temporary service, Resource Link is designed for people with diverse management, technical or professional skills who are considered at risk for leaving the company or whose careers have plateaued. Individuals in the program “sell” their services to managers across AT&T and are farmed out for short-term assignments (usually lasting about nine months). Approximately 700 employees currently participate in the program.

### **Offer “Proxies” for Promotion**

In today’s delayed organizations, traditional symbols of advancement—bigger budgets, more subordinates—are becoming outmoded indicators of success. In their place, streamlined organizations can identify benefits typically associated with senior positions, and then incorporate these benefits into lower-level positions. In other words, talented employees can be given a “proxy” for promotion. This proxy might be an opportunity for professional development or a chance to increase one’s visibility, responsibility or authority.

For instance, instead of being given traditional promotions, star performers might be asked to meet with important customers, participate in strategic planning sessions, make presentations to senior management, represent the company at professional gatherings or work on high-impact projects.

### **Put Employees in Charge**

Employees, for their part, must seize the initiative to get ahead. Progressive companies provide information, tools and resources to facilitate career and professional development. But employees are typically responsible for managing their own careers. This can include conveying career goals, looking for ways to enrich and enlarge jobs, building future-focused professional skills, and using informal networks throughout the organization and beyond to gain recognition and become aware of growth opportunities.

### **Benefits of a Flattened Operating Structure**

Despite its initial drawbacks, downsizing and delayering should ultimately have a positive effect on career and professional development. Although streamlined organizations—compared to vast bureaucracies—do indeed offer fewer levels for traditional promotions, they are also less likely to hinder talented people. A flattened operating structure can mean new learning opportunities, greater levels of responsibility, increased access to senior management and added autonomy—all of which support growth and motivation. Perhaps the key challenge lies in eradicating the entrenched, hierarchy-based notions of success, which led to unnecessary layers of management in the first place.

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